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FISCAL IMPACT STATEMENT

LS 6312 | **NOTE PREPARED:** Feb 24, 2008
BILL NUMBER: HB 1001 | **BILL AMENDED:** Feb 19, 2008

SUBJECT: State and Local Finance.

FIRST AUTHOR: Rep. Crawford | **BILL STATUS:** CR Adopted - 2nd House
FIRST SPONSOR: Sen. Kenley

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: (Amended) This bill has the following provisions:

(1) Levy Elimination: This bill eliminates: (a) medical assistance to wards fund levies; (b) family and children's fund levies; (c) children's psychiatric residential treatment services fund levies; (d) children with special health care needs county fund levies; (e) The bill terminates the power of a school corporation to impose a tuition support levy. (f) The bill eliminates the statewide property taxes imposed for the State Forestry Fund, the State Fair, and Department of Local Government Finance (DLGF) data base management.

(2) Tuition Support: This bill increases the state tuition distribution by the amount of the terminated tuition support levy.

(3) Tuition Reserve Fund: The bill creates the state Tuition Reserve Fund, abolishes the tuition support account in the state General Fund, and requires a transfer of money from the state General Fund to the state Tuition Reserve Fund.

(4) School Circuit Breaker Replacement Distribution: The bill provides for a grant in 2009 and 2010 to replace a portion of the revenue lost to a school corporation from the application of the circuit breaker credit.

(5) School Appeals: The bill permits a school corporation to appeal to the Department of Local Government Finance to impose a shortfall levy to replace a shortfall in a tuition support levy imposed before 2009.

(6) Circuit Breaker: The bill provides that for property taxes first due and payable in 2009, the circuit breaker credit is equal to the amount by which a person's property tax liability attributable to the person's: (1)

homestead exceeds 1.5%; (2) residential property exceeds 2.5%; (3) agricultural land exceeds 2.5%; (4) long-term care property exceeds 2.5%; (5) nonresidential real property exceeds 3%; or (6) personal property exceeds 3%; of the gross assessed value of the property that is the basis for determination of the property taxes. The bill provides that for property taxes first due and payable in 2010 and thereafter, the circuit breaker credit is equal to the amount by which a person's property tax liability attributable to the person's: (1) homestead exceeds 1%; (2) residential property exceeds 2%; (3) agricultural land exceeds 2%; (4) long-term care property exceeds 2%; (5) nonresidential real property exceeds 3%; or (6) personal property exceeds 3%; of the gross assessed value of the property that is the basis for determination of the property taxes. The bill specifies that property taxes imposed after being approved by the voters in a referendum or local public question shall not be considered for purposes of calculating the circuit breaker credit.

(7) Distressed Unit Appeal Board: The bill makes changes to the distressed unit appeal board. The bill provides that under certain circumstances, the board may provide that some or all of the property taxes that are being imposed to pay debt and that would otherwise be included in the calculation of the circuit breaker credit shall not be included for purposes of calculating the circuit breaker credit.

(8) Debt Payment Priority: The bill provides that political subdivisions are required to fully fund the payment of their debt obligations, regardless of any reduction in property tax collections due to the circuit breaker credit.

(9) Levy-Based Revenue Distributions: The bill provides that for purposes of computing and distributing excise taxes or local option income taxes, the computation and distribution of the excise tax or local option income tax shall be based on the taxing unit's property tax levy as calculated before any reduction due to circuit breaker credits.

(10) Levy Appeals: The bill provides that certain property tax levy appeals are eliminated beginning in 2009. The bill provides that the levy appeal for increased costs to a civil taxing unit resulting from annexation, consolidation, or other extensions of governmental services is not eliminated. The bill allows such an appeal in the first year increased costs are incurred and the immediately succeeding four years, and makes the excessive levy for a year a permanent part of the unit's maximum permissible levy for succeeding years. The bill eliminates certain exceptions to the property tax levy limits. The bill provides that the county council (rather than the local government tax control board and the DLGF) makes determinations on property tax levy appeals by civil taxing units.

(11) Township Assessors: Effective July 1, 2008, the bill transfers to the county assessor property assessment duties of township assessors in all townships in which the number of real property parcels is less than 15,000. The bill establishes a procedure for the election of a township assessor in a township in which the real property parcel count grows to exceed 15,000. The bill allows an elected township assessor to remain in office until the end of the assessor's term for the sole purpose of assisting the county assessor in the transition. The bill transfers to the county assessor township employment positions and other resources related to property assessment.

(12) Removal from Office of County or Township Assessor: The bill establishes a procedure for removal from office of county assessors and township assessors who fail to perform adequately the duties of office.

(13) Assessment Appeals: The bill amends the procedure to obtain a review by the county property tax assessment board of appeals.

(14) Certification of Appraisers: The bill provides that each appraiser that performs assessments on behalf of a county property assessment contractor must have a Level II assessor-appraiser certification, and requires the DLGF to consider before approving the contract the contractor's experience, training, and number of employees.

(15) Appraisal Contracts: The bill provides that the DLGF must be a party to appraisal and reassessment contracts.

(16) Assessor Certification: The bill provides that after June 30, 2009, an employee of the county assessor or a township assessor who performs real property assessing duties must hold a Level II or Level III assessor-appraiser certification. The bill provides that a candidate for county assessor who runs in an election after January 1, 2010, must have attained the certification of a level three assessor-appraiser.

(17) Land Commissions: The bill repeals the county land valuation commission and obsolete provisions.

(18) School Pension Debt: The bill provides that a school corporation is entitled to receive a grant to pay principal or interest payments on bonds issued to finance or retire retirement or severance liability obligations.

(19) Interim Study: The bill directs the Commission on State Tax and Financing Policy to study whether it is reasonable and appropriate to require all counties to use the state-designed software system and to study alternative methods for distribution of local option income taxes.

(20) Assessment Standards: The bill specifies the method for determining the assessed value of certain agricultural land that has been strip mined.

(21) State Administration of Child Welfare: The bill provides for the assumption by the state of the costs of child welfare services and incarcerating delinquent children in a Department of Correction facility. The bill provides that payment for child services shall be made not later than 60 days after the date the Department of Child Services receives the service provider's invoice together with a properly prepared claim voucher and documentation.

(22) Children In Need of Services (CHINS) and Delinquents: The bill makes related changes to procedures governing the adjudication of children as children in need of services or as a delinquent child.

(23) Capital Projects Review- Civil: The bill repeals the county boards of tax and capital projects review. The bill provides that review and approval by the DLGF are not required before a civil taxing unit may issue or enter into bonds, a lease, or any other obligation if the civil taxing unit's preliminary determination to issue or enter into the bonds, lease, or other obligation is made after December 31, 2008. The bill provides that after December 31, 2008, review and approval by the DLGF are not required before a civil taxing unit may construct, alter, or repair a capital project.

(24) Capital Projects Petitions and Referenda: The bill provides that in the case of bonds or lease rental agreements not subject to approval in a local public question, 100 or more taxpayers who will be affected by the proposed bonds or lease rental agreement may file a petition with the county fiscal body objecting on the grounds that the bond issue or lease rental agreement is unnecessary or excessive. The bill requires the county fiscal body to hold a hearing, and provides that a county fiscal body may approve, disapprove, or reduce the amount of the proposed bond issue or lease rental agreement. The bill provides that a political

subdivision may initiate the local public question process to overturn the county fiscal body's decision on the bonds or lease rental agreement.

The bill provides that a project that is in response to an emergency or a natural disaster in a political subdivision and is approved by the county council is not a controlled project for purposes of the referendum process.

(25) Local Budget Review: The bill provides that in counties without a county board of tax adjustment, each civil taxing unit shall file with the fiscal body of the county in which the civil taxing unit is located: (1) a statement of the proposed or estimated tax rate and tax levy for the civil taxing unit for the ensuing budget year; and (2) a copy of the civil taxing unit's proposed budget for the ensuing budget year. The bill provides that a county fiscal body shall issue a nonbinding recommendation to a civil taxing unit regarding the civil taxing unit's tax rate or levy or proposed budget. The bill provides that in the case of a taxing unit's governing body that does not consist of a majority of officials who are elected, the governing body may not issue bonds or enter into a lease payable in whole or in part from property taxes unless it obtains the approval of the city or town fiscal body or the county fiscal body (as applicable).

(26) Capital Projects Review- Schools: The bill provides that review by the DLGF and approval by the DLGF are not required before a school corporation may issue or enter into bonds, a lease, or any other obligation, if the school corporation's preliminary determination to issue or enter into the bonds, lease, or other obligation is made after December 31, 2008. The bill provides that the county fiscal body (rather than the DLGF) must approve certain actions related to the issuance of bonds by school corporations.

The bill provides that after December 31, 2008, review by the DLGF and approval by the DLGF are not required before a school corporation may construct, alter, or repair a capital project. The bill provides that the county council (rather than the school property tax control board and the DLGF) hears certain school corporation appeals. The bill provides that a school corporation's proposed lease of a school building from a lease-holding corporation may be appealed by taxpayers to the county council.

(27) School Bus Replacement: The bill provides that a school bus replacement plan must apply to at least 12 years (rather than 10 years). The bill provides that the county council (rather than the DLGF) must approve a school corporation's capital projects plan and school bus replacement plan.

(28) Bond Authorization: The bill adds a provision authorizing bonds for the IPFW student services and library complex.

(29) TIF Provisions- Revenue: The bill provides that if tax increment finance (TIF) revenues of an allocation area have been decreased by a law enacted by the General Assembly or by an action of the DLGF below the amount needed to make all payments on obligations payable from tax increment revenues, the governing body of the TIF district may: (1) impose a special assessment on the owners of property in an allocation area; (2) impose a tax on all taxable property in the TIF district; or (3) reduce the base assessed value of property in the allocation area to an amount that is sufficient to increase the tax increment revenues. The bill requires review of these actions by the legislative body of the unit that established the TIF district.

(30) TIF Provisions: The bill prohibits, with respect to bonds payable from property taxes, special benefit taxes, or tax increment revenues, a local issuing body from: (1) issuing refunding bonds that have a repayment date that is beyond the maximum term of the bonds being refunded; or (2) using savings resulting from refunding bonds or surplus proceeds for any purpose other than to maintain a debt service reserve fund,

repay bonds, or reduce levies. The bill requires the local issuing body to pay interest and principal on bonds on a schedule that provides for substantially equal installment amounts and regular payment intervals, with certain exceptions. The bill provides that (with certain exceptions) the maximum terms for property tax-based obligations are: (1) the maximum applicable period under federal law for obligations issued to evidence loans under a federal program; (2) 25 years for TIF obligations; and (3) 20 years for other property tax-based obligations. The bill provides that certain decisions with respect to TIF allocation areas are to be made by the legislative or fiscal body of the city, town, or county instead of the redevelopment commission or are subject to the approval of the legislative or fiscal body. The bill makes other changes related to TIF. The bill requires lease rentals or bond issues for a controlled project to be approved at a local referendum if the preliminary determination to enter into the lease or issue bonds is made after June 30, 2008, and a sufficient petition requesting the referendum process is filed by the lesser of: (1) 100 persons who are either owners of real property within the political subdivision or registered voters residing within the political subdivision; or (2) 5% of the registered voters residing within the political subdivision. The bill with certain exceptions, exempts obligations payable from TIF proceeds from the referendum process. The bill provides that the petition and remonstrance process applies if: (1) the preliminary determination to enter into the lease or issue bonds is made before July 1, 2008; or (2) if the bonds or lease rentals are payable from TIF proceeds and the IEDC has not granted an exception from the process. The bill provides that a project is not a controlled project for purposes of the petition and remonstrance or referendum process if the project will not cost the political subdivision more than the lesser of: (1) $7,000,000; or (2) the greater of 0.5% of the total taxable property within the political subdivision or $500,000.

(31) Lake County LOIT: The bill provides three additional options for the distribution of local option income tax for property tax replacement in Lake County.

(32) Homeowner's Property Tax Deduction: The bill provides that an individual may claim a deduction for state income tax purposes for property taxes that: (1) were imposed on the individual's principal place of residence for the March 1, 2006, assessment date or the January 15, 2007, assessment date; (2) are due after December 31, 2007; and (3) are paid in 2008 on or before the due date for the property taxes.

(33) School Capital Projects and Standardized Plans: The bill requires the State Board of Education to adopt administrative rules setting forth guidelines for the selection of school sites and the construction, alteration, and repair of school buildings, athletic facilities, and other categories of facilities related to the operation and administration of school corporations. The bill requires a school corporation to consider the guidelines and to submit proposed plans and specifications to the Department of Education (DOE) and requires the department to provide written recommendations to the school corporation, including findings as to any material differences between the plans and specifications and the guidelines. The bill requires the school corporation to have a public hearing on the plans and specifications. The bill requires the DOE to establish a central clearinghouse containing prototype designs for school facilities.

(34) School Budget Year: The bill provides that beginning in 2010, the budget year for all school corporations shall be from July 1 of the year through June 30 of the following year.

(35) Special Education Preschool Property Tax Levy: The bill provides that a school corporation may not impose a special education preschool property tax levy after December 31, 2008, and requires the DOE to make distributions equal to the product of $2,750 multiplied by the number of special education preschool children who are students in the school corporation.

(36) Inventory Exemption: The bill converts the 100% property tax deduction for inventory to an exemption

by excluding inventory from the definition of personal property subject to property tax and repeals property tax credits and exemptions applicable to inventory.

(37) Supplemental Homestead Deduction: The bill provides an additional supplemental standard deduction for homesteads. It also provides an additional homestead credit for 2008.

(38) PTRC/Homestead Credits: The bill provides additional homestead credits in 2008, 2009 and 2010. Beginning in 2009, the bill abolishes existing property tax replacement credits, state homestead credits, the Property Tax Replacement Fund, and the Property Tax Reduction Trust Fund.

(39) Revenue Distribution: The bill provides that revenues from sales tax, income tax, and certain wagering taxes formerly deposited in those funds are to be deposited in the state General Fund.

(40) Sales Tax Increase: The bill increases the sales and use tax rates from 6% to 7%. The bill adjusts distributions of Sales Tax and Use Tax so that new revenue from the rate increase is deposited in the state General Fund. The bill reduces sales tax collection allowances for retail merchants.

(41) Renter's Deduction: The bill increases the maximum amount of the state income tax deduction for renters from $2,500 to $3,000.

(42) Commercial Vehicle Excise Tax Provisions: The bill provides that a taxing unit's calendar year distribution of commercial vehicle excise tax is the amount actually collected in the prior fiscal year, instead of 105% of the prior year's base revenue. The bill provides that the county's base revenue is its distribution percentage multiplied by the amount of commercial vehicle excise tax collected in the prior fiscal year.

(43) Repealers: The bill repeals provisions concerning: (a) the procedures for amending a resolution previously adopted by a redevelopment commission; and (b) locally funded property tax replacement credits in TIF allocation areas.

(44) 2007 Homestead Credit: The bill authorizes a different distribution method for the additional 2007 homestead credit in a county: (1) that, after December 31, 2007, issues a reconciling statement for property taxes first due and payable in 2007; and (2) in which the percentage increase in property taxes billed exceeds 30% for more than one-half of the homesteads in the county.

The bill provides that a check issued by a county for a refund of the additional 2007 homestead credit is void if the check is: (1) outstanding and unpaid for 180 days after it is issued; and (2) for an amount that is not more than $10.

(45) Property Tax Installment Payments: The bill provides that a county council may adopt an ordinance to allow a taxpayer to make installment payments of taxes due under a reconciling statement. The bill requires the ordinance to specify: (1) the reconciling statement to which the ordinance applies; and (2) the installment due dates for taxpayers that choose to make installment payments. The bill specifies penalties for unpaid installments.

(46) Auto Excise, Commercial Vehicle Excise, and Financial Institutions Tax: The bill captures certain excise tax revenues for state purposes.

(47) Pre-1977 Local Police and Fire Pension Payments: The bill provides that in 2009 and each year

thereafter, the state Pension Relief Fund shall pay to each unit of local government the total amount of pension, disability, and survivor benefit payments from the old police and firefighter funds by the unit.

(48) Rainy Day Fund: The bill authorizes certain loans from the Rainy Day Fund.

(49) Common School Fund Loan: The bill provides for a loan from the Common School Fund for a school whose property tax distribution for 2007 or 2008 is more than 60 days past due.

(50) LOIT: The bill allows a county to adopt the public safety LOIT if the combined LOIT rate for levy replacement and for property tax relief is at least 0.25%.

Effective Date: (Amended) January 1, 2003 (Retroactive); July 1, 2007 (Retroactive); January 1, 2008 (Retroactive); April 1, 2008 (Retroactive); Upon Passage; May 1, 2008; July 1, 2008; January 1, 2009; July 1, 2009.

Summary of NET State Impact: The following represents the net impact on the state General Fund and Property Tax Replacement Fund for FY 2008 through FY 2010.

Table 1. Net Impact on the General Fund and the Property Tax Replacement Fund ($M).

	FY 2008		FY 2009		FY 2010	
Provision	**Rev**	**Exp**	**Rev**	**Exp**	**Rev**	**Exp**
Homestead Credit		300.0		350.0		100.0
Eliminate PTRC/Homestead Credits				(1,014.3)		(2,028.5)
School General Fund Levy Takeover **				1,083.8		2,207.6
Add School Appropriation for CB				25.0		50.0
Special Ed Preschool				3.0		6.0
School Pension Debt				61.8		123.6
Child Welfare Levies Takeover **				228.0		469.2
Pre-1977 Police & Fire Pensions #				-		80.7
State Fair/State Forestry/DLGF*				3.9		7.9
Sales Tax (+ 1%)	152.5		937.1		960.0	
Redirect Slot Wagering Tax			27.9		87.5	
Renter's Deductions			(10.5)		(10.5)	
Eliminate Juvenile Incarceration Billing			(11.4)		(22.8)	
Total	152.5	300.0	943.1	741.2	1,014.2	1,016.5
Net Difference	(147.5)		201.9		(2.3)	

* State Forestry includes an amount distributed to the State Budget Agency for DLGF Database Management.
** Net of total expenditures which includes state capture of excise tax revenue.
\# Funds for FY 2009 expenditures to come from Pension Relief Fund. FY 2010 reflects additional GF appropriation.

Explanation of State Expenditures: *(1) Levy Elimination*: The state would make distributions to replace the levies that would be eliminated under this bill, and it will forego revenues from counties to help pay for juvenile incarceration. The state's additional cost (including reduced revenue from the counties) is estimated at $1,440.5 B in FY 2009 and $2,936.1 B in FY 2010.

(2) Tuition Support: The bill increases the state distribution to local schools for CY 2009 by $2,389.4 M to provide for the state funding of the school formula. The increase in the tuition support appropriation for FY 2009 is $1,194.7.

(3) Tuition Reserve Fund: Beginning FY 2009, the State Budget Agency is to create the Tuition Reserve Fund to provide an amount available to schools in years when state tax revenues are insufficient to fully fund the operation of the schools. The bill requires the balance, $316.6 M, of the General Fund Tuition Reserve Account to be transferred to the Tuition Reserve Fund. During FY 2009, $83.4 M is to be transferred from the state General Fund into the Tuition Reserve Fund. This additional transfer from the General Fund would

increase the fund balance to $400 M.

(4) School Circuit Breaker Replacement Distribution: The bill provides $50 M in each of CY 2009 and CY 2010 to local schools to offset their reduction in property tax revenue due to the circuit breaker. The amount a school receives is equal to $50 M times the school's circuit breaker reduction divided by the total school circuit breaker reduction for the state. The bill appropriates $25 M in FY 2009, $50 M in FY 2010, and $25 M in FY 2011 to make these distributions.

(6) Circuit Breaker: Hospital Care for the Indigent (HCI) fund collections are transferred by the counties to the state HCI fund to be used to leverage federal Medicaid matching funds. Currently, $30 M is annually transferred to the Medicaid program. The balance of the fund is transferred to the Medicaid Indigent Care Trust Fund to be used to leverage federal Medicaid matching funds for increased payments to emergency transportation and physician providers, payments to HCI hospital providers, and other supplemental hospital payments. The gross HCI levy is estimated to raise $63.0 M in CY 2008, $65.6 M in CY 2009, and $68.5 M in CY 2010. If the circuit breaker reduces the amount of HCI funding available to be transferred to the state, funds available for leveraging federal matching funds would be reduced accordingly.

The Medicaid program is jointly funded by the state and federal governments. The state share of program expenditures is approximately 38%. Medicaid medical services are matched by the federal match rate (FMAP) in Indiana at approximately 62%. Administrative expenditures with certain exceptions are matched at the federal rate of 50%.

(14, 16) Certification of Appraisers & Assessors: Each appraiser performing assessments must attain a Level II assessor-appraiser certification, and after June 30, 2009, all local assessor employees who perform real property assessing duties must hold a Level II or Level III assessor-appraiser certification. The DLGF may approve employment under a contract to which the DLGF is a party. There are no data available to indicate how many more people may require training to reach Level II or Level III assessor-appraiser certification. Under current law, only the county and township assessor need to earn this certification. To the extent that classes have excess capacity, the number of instructors will not change. The DLGF may need additional resources for class materials, to track certifications and continuing education hours completed, and to provide contract approval.

Background - Currently, DLGF promulgates rules concerning the employment of contract professional appraisers and gives approval either for a contract with a professional appraiser or for a local unit's decision not to employ professional appraisers as a technical advisor in a general reassessment.

Under current law, the DLGF conducts assessor-appraiser training and provides for the certification and continuing education of assessor-appraisers. A catalogue of classes is available online, and classes are given in six locations throughout the state. The DLGF reports that most classes are not filled to capacity. The DLGF tracks the number of hours of continuing education credit each assessor-appraiser earns. In statute effective January 1, 2008, township assessors elected after June 30, 2008, must complete the Level II Assessor-Appraiser certification prior to taking office. A county assessor is to take the assessing responsibilities from the township assessor that do not reach that level of certification. In administrative rules, the DLGF requires Level I Assessor-Appraisers to earn 30 hours of continuing education credits during a four-year cycle and Level II Assessor-Appraisers to earn 45 hours during a four-year cycle.

(18) School Pension Debt: The bill provides an annual distribution to schools to pay principal and interest on school retirement and severance bonds. The estimated annual distribution is $123.6 M.

(21, 22) State Administration of Child Welfare; CHINS and Delinquents: The bill requires DCS to assume the costs previously paid by the individual county family and children funds. These expenditures include payment for foster care, adoption subsidies, services, programs, and placements ordered for children adjudicated to be children in need of services and juvenile delinquents.

The bill establishes procedures and requirements for the juvenile courts, juvenile probation, and DCS to be used in the determination of services, programs, and out-of-home placements to be provided for CHINS and juvenile delinquents. The bill specifies a procedural process for handling disagreements between the juvenile courts and DCS concerning the need for or alternatives to services, programs, or placements. The bill stipulates the financial responsibility (DCS or the court) for the cost of services, programs, or placements that are in dispute, including those costs incurred during the appeal process.

The bill specifies that DCS is not responsible for any child services costs if a juvenile court orders services, programs, or placement that are not eligible for Title IV-E of the Social Security Act and the services or programs were not recommended or approved by DCS.

The bill specifies that counties remain responsible for all bonds issued and loans made for welfare purposes before January 1, 2009.

Adoption Subsidies: The bill provides that the courts will refer adoption petitions containing requests for financial assistance to DCS for Title IV-E eligibility determinations and for determinations of the amount of assistance, if any, to be provided. The bill allows DCS to adopt rules to prioritize, limit, modify, discontinue, or make additional payments for adoption subsidies for hard-to-place children. The bill provides that the court may not order payment of adoption assistance under this chapter. The bill also provides that DCS subsidy determinations are not subject to administrative review or appeal, but they are subject to judicial review. The bill also provides conditions under which medical subsidies can be provided.

Child Welfare Programs: The bill allows DCS to establish a child welfare program designed to serve groups or categories of children who are, or who are at risk of becoming, homeless, neglected, or abused. DCS reports that they currently offer several child welfare programs as defined in the legislation. These programs are currently funded with a combination of federal, state, local, and dedicated funds. The bill establishes the Child Welfare Program Account consisting of appropriations made for child welfare programs, any part of other DCS appropriations allocated for child welfare programs at the Director's discretion, federal grant funds, and gifts. The bill specifies that an appropriation made for the child welfare program is nonreverting, The bill does not specify any order of assumed expenditures, making it difficult to determine which appropriated funds in the account might otherwise revert.

Regional or District Offices: The bill allows the state to consolidate local offices into regions or districts. The bill specifies that no county may be divided in the determination of a region or district office of the Division of Family Resources or the Department of Child Services. Any savings in operating costs that would accrue to the state would depend on administrative actions.

The bill also provides for the establishment of regional services councils to provide a mechanism for local planning for services provided to CHINS and juvenile delinquents. The bill specifies the minimum membership of the regional services councils and specifies the councils will meet quarterly to develop, review, or revise a strategy for the implementation of an approved plan. The bill also specifies that child protection teams are countywide entities.

Juvenile Offenders: The maximum juvenile informal adjustment period (a form of probation for juvenile offenders) is reduced from 6 to 3 months unless otherwise approved by the juvenile court. The bill specifies the supervision of a child on probation (not informal adjustment) is to be performed only by the probation department, removing any potential responsibility from DCS.

The bill provides that the state will assume the cost of delinquents committed to the DOC after January 1, 2009; local reimbursement will decrease between $23 M and $32 M annually due to this provision. The total amount will depend on the number of new juveniles committed to Department of Correction (DOC) each year. Counties will remain responsible for the costs of juveniles placed in DOC facilities incurred before January 1, 2009. Counties also remain responsible for the the costs of secure detention for juveniles.

(28) Bond Authorization: The bill would authorize an additional $16 M of bonding authority for Indiana University-Purdue University at Fort Wayne's student services and library complex. The additional bonding is not eligible for fee replacement, so the additional bonding has no state General Fund impact. The state authorized $24 M in the 2007 budget that was eligible for fee replacement.

(30) TIF Provisions: Under this provision, the IEDC could issue a finding that a building project should not be considered a controlled project for purposes of the petition and remonstrance process. The IEDC could issue the finding within 15 days after the preliminary adoption of the local resolution to issue bonds or lease rentals.

The IEDC would have additional administrative costs to implement these new requirements. However, the precise fiscal impact is indeterminable. The funds and resources that may be required for the IEDC to implement the new requirements could be supplied through a variety of sources, including the following: (1) existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) funds that, otherwise, would be reverted; or (5) new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this provision will depend upon legislative and administrative actions. The state vacant position report for December 31, 2007, indicates the IEDC had 10 vacant full-time positions.

(33) School Standardized Plans: The Department of Education would likely need to add staff to develop guidelines for school facilities construction and alteration and to review school construction projects. Prior to 1995, DOE employed four professional staff to review construction proposals.

Assuming that at least four staff members at $68,033 and one administrative assistant at $30,799 would be needed to perform this function, a portion of the cost would be $421,801 for FY 2009 and $420,428 for FY 2010. The funds and resources required above could be supplied through a variety of sources, including the following: (1) existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) funds that, otherwise, would be reverted; or (5) new appropriations. DOE had 71 vacant positions worth $712,982 as of February 18, 2008. Of the vacant positions, 34 had been vacant for more than two years. DOE reverted about $5.2 M to the state General Fund on June 30, 2007. Ultimately, the source of funds and resources required to satisfy the requirements of this provision will depend upon legislative and administrative actions.

School new construction projects included architect fees of about $30.3 M in CY 2007. The cost would depend on the number of plans developed by DOE and by outside consultants, but DOE costs could range from $2 M to $3 M in the first year.

(35) Special Education Preschool Property Tax Levy: The bill would eliminate the Special Education Preschool Levy, about $6M, for CY 2009. The bill increases the appropriation for the state special education preschool distribution by $3M for January through June of 2009.

(36) Inventory Exemption: Under current law, business inventory is subject to assessment. Beginning with taxes payable in 2007, inventory owners receive a 100% deduction against the assessed value of their inventory. So, the net AV of inventory in all counties is now zero.

This bill would change the definition of personal property to exclude inventory. It would also repeal all inventory deductions and exemptions. There would be no change in the tax base as a result of this proposal.

This bill would reduce the reporting requirements of business taxpayers and would reduce administrative burdens for county assessors, county auditors, and the DLGF. The DLGF currently must prescribe new assessment forms each year. It also must annually set the assessed value of agricultural inventory. The state would realize some savings of resources that are devoted to these functions.

(38) PTRC/Homestead Credits: The state currently pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and nonbusiness personal property. Homestead credits (HSC) are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

The maximum expenditure for PTRC and HSC is $2,028.5 M in each of CY 2008 and CY 2009. These credits are paid from the Property Tax Replacement Fund (PTRF). In addition, $250 M in supplemental homestead credits will be paid from the Property Tax Reduction Trust Fund in CY 2008 under current law.

In addition to the $250 M in supplemental homestead credits in CY 2008 under current law, this bill would appropriate $600 M from the state General Fund for CY 2008 homestead credits ($300 M in each of FY 2008 and FY 2009).

After CY 2008, the current PTRC and homestead credits would cease under this bill. The state would fund a new homestead credit in the amount of $100 M per year in CY 2009 and CY 2010. The $100 M in credits would be distributed proportionately across the state, based on each homeowner’s net tax liability for all funds.

The overall change in the state’s expense for PTRC and Homestead Credits is an increase of $600 M in CY 2008, and a reduction of $1,928.5 M in each of CY 2009 and CY 2010.

(47) Pre-1977 Local Police and Fire Pension Payments: The bill provides that in 2009 and each year thereafter, the state Pension Relief Fund shall pay to each unit of local government the total amount of pension payments from the Pre-1977 police and firefighter funds. The bill annually appropriates from the General Fund to the Pension Relief Fund an amount sufficient to make these pension payments. The state appropriation assumes that any accumulated assets in the Pension Relief Fund will be used first to pay pension benefits before any state appropriations are made. Based on this assumption, the projection shows that there may be sufficient accumulated assets as of January 1, 2009, such that no state appropriations may be necessary in CY 2009. The estimated appropriation from the GF for CY 2010 would be $161.3 M, or

$80.65 M in FY 2010. The Pension Relief Fund currently receives $61.48 M annually in dedicated fund revenues which will continue to be used for these payments.

(48) Rainy Day Fund: The bill provides for the State Board of Finance to provide loans from the Rainy Day Fund not exceeding:

> (1) $6 M for all calendar years to taxing units that the Board determines will experience significant reductions in property tax collections due to the closure of auto parts manufacturers; and
> (2) $20 M for all calendar years to taxing units that will experience hardship from reduced AV due to flooding in January 2008 for which FEMA authorized certain assistance.

The bill requires the Board, after review of the Budget Committee, to determine the terms of the loans. A taxing unit receiving a loan may repay the loan with any sources of revenue. The bill provides that a loan obligation under these provisions is not a basis for a taxing unit to obtain an excessive levy. It also provides that a loan under these provisions is not bonded indebtedness for purposes of the civil government property tax control law. The bill requires that the Board deposit loan repayments in the Rainy Day Fund.

(49) Common School Fund Loan: The bill provides for a loan from the Common School Fund for a school whose property tax distribution for 2007 or 2008 is more than 60 days past due. Currently, two counties (Brown and Posey) do not have certified budgets for 2007. The 2007 levies for the four school corporations are about $22.4 M. The unobligated balance in the Common School Fund is about $12 M, but the State Board of Education has pending construction loans from the Common School Fund for all but about $165,000.

Department of State Revenue (DOR) - The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the income tax deduction change in the bill. The DOR's current level of resources should be sufficient to implement these changes. If Lake County opts to distribute LOIT revenue on the basis of where it is collected, the DOR would have to capture additional information at filing. The Department would have to alter forms, databases, and software to capture a "municipality code". The additional expense is not currently known.

Explanation of State Revenues: *(11) Class A Misdemeanor for Assessing Duties:* By including all assessing officials and representatives of the DLGF, the bill increases the pool of potential violators of provisions concerning proper assessment and assessing responsibilities, Class A misdemeanors. If additional court cases occur and fines are collected, revenue to both the Common School Fund (from fines) and the state General Fund (from court fees) would increase. The maximum fine for a Class A misdemeanor is $5,000.

(12) Removal from Office of County or Township Assessor: If the DLGF finds that work is not properly conducted, or property assessments are not being properly made by a county or a township assessor, the DLGF is to report to the township assessor, the county assessor, and the county council president (or in a county with a consolidated city, the city-county council). The county council president is to inform the board of county commissioners or the city-county council who may adopt an ordinance that the county assessor or the township assessor, by failing to adequately perform official duties, has forfeited the office and is subject to removal from office. The county prosecutor may file an information for removal from office upon the ordinance's passage. Although the prosecuting attorney does not pay court fees, a losing party may be ordered to pay the costs of $70 for a civil action.

(21, 22) State Administration of Child Welfare; CHINS and Delinquents: Informal Adjustment Program Fees: The bill requires informal adjustment program fees assessed against individuals adjudicated as CHINS to

be sent to the state rather than the county user fee fund. This will represent an increase in state revenue of approximately $7,000 per year.

Adoption Fees: The bill provides that adoption fees will now go to the state instead of the county. These fees are to be placed in the Child Trust Clearance Account which is established for that purpose.

Gifts and Bequests: The bill allows DCS to administer and receive gifts, devises, or bequests that are intended to aid children under supervision or care of the department. This revenue is designated for specified purposes as defined by the donors. Funds are to be deposited in the Child Trust Clearance Account.

Creation of New Funds: The bill creates new accounts in the General Fund that will help to pay for certain programs and services DCS offers. They are the Adoption Assistance Account, Child Welfare Program Fund, and the Child Trust Clearance Account.

(32) Homeowner's Property Tax Deduction - The bill increases the maximum allowable homeowner's property tax deduction under the individual AGI Tax in tax year 2008 only. The increase in the maximum allowable deduction would apply only to homeowners who pay any or all of their 2006 Pay 2007 property taxes in 2008. This provision will not result in additional revenue loss to the state, but will shift revenue loss that would otherwise occur in FY 2008 (attributable to tax year 2007 AGI tax payments) to FY 2009 (attributable to tax year 2008 AGI tax payments). The precise revenue loss that could potentially be shifted is indeterminable.

(39) Revenue Distribution: The bill redistributes:

(1) Sales Tax revenue from the PTRF to the state General Fund, effective May 1, 2008.
(2) Individual Income Tax and Riverboat Wagering Tax revenue from the PTRF to the state General Fund, effective January 1, 2009.
(3) Slot Machine Wagering Tax from the Property Tax Reduction Trust Fund to the state General Fund, effective January 1, 2009.

Under current statute, 49.067% of Sales Tax revenue, 14% of Individual Income Tax revenue, and 37.5% of Wagering Tax revenue collected from the French Lick casino is distributed to the PTRF. In addition, Wagering Tax revenue collected from the remaining 10 riverboat casinos after local revenue distributions and deductions for Gaming Commission administrative expenses and local revenue sharing is distributed to the PTRF. Slot Machine Wagering Tax revenue from slot machine operations at Hoosier Park and Indiana Downs is currently to be distributed to the Property Tax Reduction Trust Fund.

Redirection of Slot Machine Wagering Tax - The current revenue estimate for the Slot Machine Wagering Tax is $77.9 M in FY 2009 and $87.5 M in FY 2010. However, $50 M of the anticipated FY 2009 tax revenue was appropriated in HEA 1001-2007 for the CY 2008 Homestead Credits. This would leave an estimated $27.9 M in FY 2009 and $87.5 M in FY 2010 which would revert to the General Fund with the repeal of the Property Tax Reduction Trust Fund.

(40) Sales Tax Increase: The changes to the Sales Tax contained in this bill will increase state revenues by approximately $152.5 M in FY 2008, $937.1 M in FY 2009, and $960.0 M in FY 2010.

The bill increases the Sales Tax rate by 1%, from 6% to 7%, beginning April 1, 2008. The April 1, 2008, effective date means that there will be two months of remittances by retailers in FY 2008 (May and June).

The bill also changes the distribution formula for Sales Tax revenues as follows.

	Distribution Formula	
	Current	**Under Bill**
PTRF	50.000%	0.000%
State General Fund	49.067%	99.178%
Public Mass Transportation Fund (PMTF)	0.760%	0.670%
Industrial Rail Service Fund (IRSF)	0.033%	0.029%
Commuter Rail Service Fund (CRSF)	0.140%	0.123%
TOTAL	**100.00%**	**100.00%**

The bill repeals the current Property Tax Replacement Fund (effective January 1, 2009) and directs all new revenues from the Sales Tax increase to be deposited in the state General Fund, while holding the other funds "harmless".

The table below shows the impact on the revenue deposited in the funds that are currently part of the Sales Tax distribution formula.

Impact on Funds ($M)									
	FY 2008			**FY 2009**			**FY 2010**		
	Current	**Under Bill**	**Change**	**Current**	**Under Bill**	**Change**	**Current**	**Under Bill**	**Change**
PTRF	$471.2	$0.0	($471.2)	$2,895.9	$0.0	($2,895.9)	$2,966.4	$0.0	($2,966.4)
State G.F.	$462.4	$1,085.8	$623.4	$2,841.8	$6,673.6	$3,831.7	$2,911.0	$6,836.1	$3,925.0
PMTF	$7.2	$7.3	$0.2	$44.0	$45.1	$1.1	$45.1	$46.2	$1.1
IRSF	$0.3	$0.3	$0.0	$1.9	$2.0	$0.0	$2.0	$2.0	$0.0
CRSF	$1.3	$1.3	$0.0	$8.1	$8.3	$0.2	$8.3	$8.5	$0.2
TOTAL	**$942.3**	**$1,094.8**	**$152.5**	**$5,791.7**	**$6,728.9**	**$937.1**	**$5,932.8**	**$6,892.7**	**$960.0**

The FY 2008 estimates represent a two-month adjusted amount due to the April 1, 2008, effective date of the rate increase. These estimates are based on the December 13, 2007, State Revenue Forecast.

The bill also changes the retail merchant collection allowances to hold "harmless" the amount of revenue received by retailers through the collection allowance after the 1% increase in the Sales Tax rate. This change has the same effective date as the rate increase provisions. The table below shows the current allowance percentages and the new percentages under the bill.

Retailer's Sales Tax Collection Allowance		
Gross Sales Tax Liability	**Current %**	**New %**
Not more than $60,000	0.83%	0.73%
Greater than $60,000, not more than $600,000	0.60%	0.53%
Greater than $600,000	0.30%	0.26%

(41) Renter's Deduction - The bill increases the maximum renter's deduction under the individual Adjusted Gross Income (AGI) Tax from $2,500 to $3,000 beginning in tax year 2008. The deduction increase is estimated to reduce individual AGI Tax revenue by about $10.5 M in FY 2009. It is estimated that the revenue loss could grow by about 1% annually thereafter.

Under current law, a taxpayer may deduct from his or her state taxable income an amount equal to the total rent paid during a tax year up to $2,500. The rent deducted must be paid on the taxpayer's principal place of residence. In 2005, about 641,000 taxpayers deducted rent totaling approximately $1,476.9 M under the renter's deduction. From 1989 to 2005 the number of taxpayers claiming the deduction increased by almost 0.9% annually. The estimate assumes that all taxpayers currently claiming the deduction will be able to utilize the full increase in the deduction and assumes that the current trend in total deductions persists.

(46) Auto Excise, Commercial Vehicle Excise, and Financial Institutions Tax: The bill would have the state receive the auto excise, commercial vehicle excise, and financial institution taxes that were allocated to the school general fund, county medical assistance to wards fund, family and children's fund, children's psychiatric residential treatment services fund, and children with special health care needs county fund generated before the levy eliminations. The increase in revenue is about $214.4 M for CY 2009 and $220.3 M for CY 2010. The net impact table above incorporates the capture of this revenue transfer to the state.

Explanation of Local Expenditures: *(2) Tuition Support*: The bill eliminates the tuition support levy calculations. The CY 2009 tuition support levy would have been about $2,167.6 M. The bill increases the tuition support appropriation for FY 2009 by about $1,083.8 M, the reduction in the tuition support levy for the first six months of CY 2009. The bill also specifies that the additional appropriation is not subject to the CY 2009 maximum state tuition support distribution.

(11) Township Assessors: Effective July 1, 2008, the duties of township assessor transfer to the county assessor in townships with less than 15,000 real property parcels. There is an exception for Decatur Township in Marion County and Guilford Township in Hendricks County, which each have less than 10,000 real property parcels and an international airport. Elected township assessors whose duties transfer will have as their sole duty transfer of records to the county assessor. For townships that do not have elected township assessors (generally townships with less than 8,000 population), if the assessing responsibilities of the trustee-assessor transfer to the county assessor, the trustee remains in office to execute other office responsibilities. Any change in the number of individual appraisers needed to complete an assessment or reassessment is indeterminate and based on the situation of the individual township and county. Short-term costs may increase to organize and transfer records and tangible property between the township assessor and county assessor.

Elimination of township assessors does not affect any assessment, assessment appeal, or other official action of a township assessor made prior to the expiration of the assessor's term of office. Also, the act does not affect pending actions or rights of parties with a legal claim against a township assessor.

Background - Currently, townships with a population of more than 8,000 elect a township assessor. Townships with a population between 5,000 and 8,000 may elect a township assessor if the legislative body of the township adopts a resolution indicating that a township assessor is necessary and the resolution is filed with the county election board. A township trustee in a township with less than 5,000 population serves as the township assessor. In 2000, there were 1,008 township assessors in Indiana, 827 of whom are trustee-assessors. Of the trustee-assessors, 627 did not reach the level of certification required by current statute to retain assessing duties. The assessing duties of these trustee-assessors will transfer to the county assessor as of December 31, 2007.

In total, 44 townships would retain township assessors. Decatur Township in Marion County and Guilford Township in Hendricks County would qualify as having less than 10,000 parcels and an international airport. The 42 townships having more than 15,000 real property parcels are located in the counties shown below.

Number of Townships With More Than 15,000 Real Property Parcels

County	No. of Townships	County	No. of Townships
Allen	2	LaPorte	1
Bartholomew	1	Madison	1
Clark	1	Marion	8
Delaware	1	Monroe	1
Elkhart	1	Porter	2
Floyd	1	St. Joseph	2
Hamilton	3	Tippecanoe	1
Hendricks	1	Vanderburgh	3
Howard	1	Vigo	1
Johnson	2	Warrick	1
Lake	6	Wayne	1

(11) Class A Misdemeanor for Assessing Duties: A Class A misdemeanor is punishable by up to one year in jail.

(21, 22) State Administration of Child Welfare; CHINS and Delinquents:

(A) Adoption Subsidies: The bill will shift responsibility for payment from the counties to the state.

(B) Costs of Secure Detention: Counties will still be required under the legislation to pay for all costs of secure detention, other than any costs that are paid from nonpublic funding. These costs include facility costs, costs of detaining children, and services provided.

(C) Delinquent Child Services: The bill adds that if a court places a delinquent child in facilities outside of the state, DCS is not responsible for these costs; rather, the county where a delinquent child resides will be responsible. DCS reports that typically county funds are currently used to finance these costs.

(D) CHINS: The legislation requires DCS to assume the costs associated with CHINS.

(E) Delinquents Committed to DOC: Counties with an outstanding balance prior to January 1, 2009, will still need to pay the amount that they owe the state. As of October 1, 2007, 79 counties still owed the state a combined $46.8 M. The amounts that counties owed ranged from a high of $36 M (Marion County) to a low of $3,660 (Clay County).

(F) Local Offices of DCS: The bill gives control of the county offices to DCS and allows the Department to consolidate offices into regions or districts.

(23) Capital Projects Review - Civil: Currently, a unit's capital project is required to be reviewed by the County Board of Tax and Capital Projects Review if the project is a controlled project more than $7 M. The bill would require review of projects more than:

The lesser of (1) $7 M; or
(2) The greater of:
(A) 0.5% of the unit's AV; or
(B) $500,000.

There are about 2,773 local units. The bill would reduce the threshold for about 499 of the tax units. The impact would depend on changes made to projects that don't currently require review but would require review under the bill.

(24) Capital Projects Petitions and Referenda: Under this provision, the lesser of (1) 100 people who are either voters or property owners or (2) 5% of the voters, may request a referendum on a controlled project. The referendum will be held during a general or primary election unless there is no election within 6 months from when the county auditor certifies the public question. In that case, a special election would be held between 90 and 120 days after the public question is certified.

The increase in costs for approving controlled projects if a referendum is required would probably be minor except in years no elections are held. The impact of the referendum on capital projects would occur if more projects were disapproved with the referendum process than the current petition and remonstrance process. [School corporations request about 50 capital projects annually with a value of about $1.2 B. The number and value of civil unit capital projects is unknown.]

(30) TIF Provisions:

<u>Bonds</u>. Under current law, TIF bonds must mature within 50 years. This bill would reduce the maximum length of bonds issued after June 30, 2008, to 25 years. The 25-year limitation for new bonds could result in larger principal, but smaller interest payments each year. The size of new bond issues and the scope of related projects could be limited by the ability to pay off the bonds in a shorter time frame.

Under current law, bond issues of $3 M or greater that are proposed by a redevelopment commission must be approved by the unit legislative body. After June 30, 2008, the bill would require the unit legislative body to consider all bond issues proposed by the redevelopment commission.

<u>Decision-making Authority</u>. Under current law, redevelopment commissions have authority to permit tax abatements and enterprise zone investment deductions in the allocation area, issue bonds, use eminent domain, apply for federal grants, and pay TIF-funded PTRC in the allocation area. Under this bill, the redevelopment commissions would, instead, make recommendations to the county or municipal legislative body that approved designation of the allocation area. Decision-making authority would be transferred to the county or municipal legislative body.

Petition and Remonstrance. Under this bill, the petition and remonstrance process would not apply to TIF bonds if the IEDC determines within 15 days of the adoption of a resolution to issue bonds, that a project should not be considered a controlled project.

Redevelopment Commissions. Under current law, municipal redevelopment commissions are comprised of five voting members. Three members are appointed by the municipal executive, and two members are appointed by the municipal legislative body. In addition to these members, under the bill, the municipal executive would appoint a nonvoting advisory member. The advisor must be a member of a school board in a school corporation that wholly or partially includes the area served by the commission.

Under current law, county redevelopment commissions are comprised of either five or seven voting members, all of whom are appointed by the county executive. The number of members is determined by county ordinance. Under the bill, the county executive would appoint three members and the county fiscal body would appoint two members for a five-member commission. For a seven-member commission, the county executive would appoint four members and the county fiscal body would appoint three members. In addition to these members, the county executive would appoint a nonvoting advisory member. The advisor must be a member of a school board in a school corporation that wholly or partially includes the area served by the commission.

Under current law, a redevelopment commission can create a TIF district for a maximum of 30 years. The bill reduces the period to 25 years.

Project Area Amendments. Under current law, a redevelopment commission that proposes to amend the resolution or plan must find that (1) the amendment is reasonable and appropriate in relation to the original resolution or plan and the purpose of the statute, and (2) the amended resolution or plan conforms to the unit's comprehensive plan. The commission must conduct a public hearing on the matter.

If the amendment enlarges the allocation area, then under the bill the commission must also find that the existing area does not generate sufficient revenue to meet the obligations of the original project.

AV Reallocation to Taxing Units. Currently, the redevelopment commission must notify the county auditor each year if the taxes payable on the allocated AV will exceed the amount needed to pay obligations and reimburse the county or municipality for expenditures made on the commission's behalf.

This bill would require the redevelopment commission to provide written notice each year to the county auditor, the county or municipal fiscal body, and the fiscal offices of the other taxing units that wholly or partially include the area served by the commission. The notice must state (a) the amount by which the revenues will exceed obligations or (2) that there is no excess.

The bill would require property eligible for tax abatement in the allocation area to have the abatement approved by the legislative body that created the allocation area.

Bond Refinancing. For bonds payable from property taxes, this provision would prohibit the issuer from refinancing the bonds where the new repayment date is later than the maximum term of the original bond. The bill would also prohibit the use of savings resulting from refinancing or the use of surplus proceeds for any purpose other than to maintain a debt service reserve fund, repay bonds, or reduce levies. The impact would depend on the number of bonds refinanced. The bill would result in a net savings for bonds being refinanced.

Bond Payments. The provision would require the bond issuer to pay interest and principal on bonds on a schedule that provides for substantially equal installment amounts and regular payment intervals, with some exceptions. This provision would more accurately reflect the fiscal impact of a bond issuance. The fiscal impact is unknown. The total cost of a bond increases if principal payments are deferred and decreases if the principal is paid earlier.

Bond Term. This provision limits the maximum terms for property tax-based obligations to 25 years for TIF obligations and 20 years for other property tax-based obligations. The maximum term for obligations issued to evidence loans under a federal program would be the applicable period under federal law. The current number of local bonds with terms longer than the bill limit is unknown. The longer the term of the bond, the lower the annual payments, but the cost of interest is increased.

TIF Background. In 2006, \$8.5 B in real property AV and \$935 M in personal property AV were tiffed for a total TIF AV of \$9.4 B. The net tax (after TIF-funded PTRC) generated by the TIF AV was \$229.8 M.

(33) School Standardized Plans: The DLGF approved school new construction projects worth \$597.6 M during CY 2007. Of the \$597.6 M, \$30.3 M was budgeted for architect fees on the construction projects. After June 30, 2008, when DOE has developed the standardized plans, local school corporations have to use the plans developed by DOE. Architect fees for construction of new school facilities should diminish significantly.

(34) School Budget Year: Schools would switch from a calendar year General Fund budget starting with the FY 2010-2011 fiscal year. Schools would be required to adopt a CY 2010 General Fund budget and also a FY 2010-2011 budget. Schools might incur some additional expense due to the conversion from a calendar year to a fiscal year budget cycle. The fiscal impact of the change would probably be minor and would be funded within school General Fund revenue.

(36) Inventory Exemption: Counties must print property tax returns and furnish them to county taxpayers upon request. Printing costs could be slightly reduced if inventory assessments are removed from the forms. Counties would realize some savings of resources that are devoted to handling property tax returns, especially in cases where inventory-only returns are currently being filed. For the 2002 payable 2003 tax year, there were approximately 170,000 property tax returns filed statewide with reported inventory.

(44) 2007 Homestead Credit:

Rebates Credited on Tax Bills. Under current law, homestead owners will share \$300 M in additional homestead credits, based on their 2007 property tax bills. These credits will be paid to homeowners in the form of a rebate. The rebates must first be applied to any delinquent property taxes owed by the taxpayer in the county. A written explanation of the rebate must be sent to the property owner.

In a county that issues reconciling tax statements after December 31, 2007, for taxes otherwise payable in 2007, this bill would permit the county fiscal body to resolve to apply the additional credits on the reconciling tax bill rather than sending a rebate. If the additional credit exceeds the remaining tax due for 2007, the county auditor and county treasurer would be able to either apply the remaining credit to 2008 tax bills or issue a refund.

If the county opts to apply the credit against 2007 tax bills rather than issue rebate checks, the county would save the expense of (1) issuing the checks and (2) sending the written explanation to property owners.

Rebate Calculation. Under current law, taxpayers who owned homesteads in 2007 and had a tax due on the homestead will receive a homestead rebate. Rebates for all taxpayers in a taxing district are calculated at the same rebate rate. The amount of each taxpayer's rebate will be slightly higher than the state homestead credit that was applied to the 2007 tax bill. Differences between the rebate rates by taxing district are in synch with the differences in the homestead credit rates. These differences are the result of the varying degrees with which the levies in a district qualify for PTRC and homestead credits under current law.

This bill would permit a change in the distribution method for the property tax rebate in counties:

A. That issue reconciling statements for Pay 2007 property tax after December 31, 2007; and

B. In which more than half of the homesteads had more than a 30% tax increase from 2006 to 2007.

The county auditor would make a determination to distribute rebates either under the current law method or under the alternate method. If the alternate method is used, then the interest earned by the county on the rebate distribution from the state would be used for rebates. The rebate under the alternate method would be based on the tax increase percentage from 2006 to 2007 as follows:

1. For tax increases less than 10%, the rebate would equal the lesser of (A) $50 or (B) the rebate amount calculated under current law.
2. For tax increases of 10% to 39%, the rebate would equal the greater of (A) $100 or (B) 20% of the tax increase amount from 2006 to 2007.
3. For tax increases that are greater than 39%, the rebate would equal the greater of (A) $100, (B) 20% of the tax increase amount from 2006 to 2007, or (C) the amount needed to reduce the increase to 39%.

The references to 39% could be changed to 40% jointly by the county auditor and treasurer if the amount available for rebates is insufficient to make the payments at the 39% level.

At this time, only one county, Marion County, has been identified as qualifying to use the alternate method. However, one or two more counties could qualify in the future, depending on those counties' billing schedules and the percent of homeowner tax bills that increase by more than 30%.

Each county's share of the $300 M available for rebates was based on the current method and on rebate rates certified by the DLGF. If there is any rebate money in a county that remains unspent after all rebates are paid, those amounts will be sent back to the state and will be used to augment the state homestead credit in 2008 under current law. Under the bill, unspent rebate money in a county that uses the alternate distribution method would be used to increase rebates in the county on a pro-rata basis for homeowners that had at least a 10% increase.

Explanation of Local Revenues: *(1) Levy Elimination:* Beginning with taxes payable in 2009, this bill would eliminate the property tax levies for several funds as follows.

Fund or Purpose	Est. 2009 Gross Levy ($M)	Est. 2010 Gross Levy ($M)
State Fair	$ 2.6	$ 2.7
State Forestry*	5.2	5.4
County Family and Children	416.8	440.8
County Children's Psychiatric Residential Treatment Services	17.5	18.7
County Medical Assistance to Wards	13.7	14.3
Children with Special Health Care Needs	8.0	8.4
Local Share of Pre-1977 Police / Fire Pensions	97.2	100.9
County Share of Juvenile Incarceration	22.8	22.8
School General	2,167.6	2,247.6
School Pension Debt	123.6	123.6
Pre-School Special Education	6.0	6.0
Total	**$2,881.0**	**$2,991.2**
* State Forestry includes an amount distributed to the State Budget Agency for DLGF Database Management.		

The state would make distributions to replace the levies that would be eliminated.

(4) School Circuit Breaker Replacement Distribution: The bill provides $50 M in each of CY 2009 and CY 2010 to local schools to offset part of their reduction in property tax revenue due to the circuit breaker. The amount a school receives is equal to $50 M times the school's circuit breaker reduction divided by the total school circuit breaker reduction for the state.

(5) School Appeals: The bill would eliminate the current school General Fund appeals for new facilities, transfer tuition starting in CY 2009, and property tax shortfalls starting in CY 2010. The appeals were about $31.2 M for CY 2007 and $31.8 M for CY 2006.

(6) Circuit Breaker: Under current law, the property tax circuit breaker credit applies only to homesteads in 2008 and 2009, and all other property in 2010. The credit equals the amount by which net taxes exceed 2% of gross assessed value. The credit is reduced by the amount of the credit that would otherwise be attributable to the school general fund. After 2009, the circuit breaker credit will apply to homesteads at the 2% gross AV threshold and to all other real and personal property at a 3% gross AV threshold.

This bill would make several changes to the circuit breaker credit beginning in CY 2009. There would be no adjustment for credit amounts attributable to the school general fund beginning in CY 2009. Property tax levies for the payment of debt obligations that are approved in a referendum would not count towards the cap.

For taxes payable in 2009, the circuit breaker would apply as follows:
1.5% gross AV threshold – Homesteads.
2.5% gross AV threshold – Residential rental property, commercial apartments, long-term care facilities, and land used for agricultural purposes.
3.0% gross AV threshold – All other real and personal property.

For taxes payable in 2010 and later, the circuit breaker would apply as follows:
1.0% gross AV threshold – Homesteads.
2.0% gross AV threshold – Residential rental property, commercial apartments, long-term care facilities, and land used for agricultural purposes.
3.0% gross AV threshold – All other real and personal property.

The additional $600 M in additional homestead credits authorized under this bill would reduce homeowners' taxes in CY 2008, thereby reducing the cost of the existing 2008 circuit breaker by an estimated $8.3 M, from a total of $12.2 M down to $3.9 M.

Changes to the structure of the circuit breaker, coupled with the elimination of levies and the supplemental homestead deduction would result in an increased circuit breaker cost beginning in CY 2009. **The total cost of the circuit breaker credits under the bill is estimated at $353.8 M in CY 2009 and $627.9 M in CY 2010.** The increase in the cost as compared to the estimated cost under current law is estimated at $328.6 M in CY 2009 and $421.2 M in CY 2010. Circuit breaker credits reduce revenue to local civil taxing units and school corporations. Additional credits further reduce revenues.

Note: The bill treats rental property that is used as a principal residence differently from second homes and short-term rentals. The circuit breaker threshold would be 3.0% under the bill if the home is a second home or short-term rental. However, data constraints do not allow identification of non-homestead residential properties as principal rentals or as something other. The reported estimates assume that all non-homestead residential property is subject to the 2.0% threshold (2010.) This may result in inflated circuit breaker cost estimates in some cases.

The bill states that civil taxing units and school corporations must fully fund debt and lease rental payments regardless of any revenue loss realized from the circuit breaker credits. Revenue reductions would be applied to other funds after debt and lease payments are fully funded. In addition, the bill would require the State Treasurer to withhold distributions from a taxing unit and to make debt payments on behalf of a taxing unit that fails to make a payment.

Currently, a unit is distressed if the circuit breaker credit will reduce the unit's levy by at least 2%. Under this bill, a unit would be distressed if the circuit breaker credit would reduce the unit's property tax-funded budget by at least 5%.

(10) Levy Appeals: Under current law, there are several different excessive levy appeals that are available through December 31, 2009, for civil taxing units. Beginning in 2010, most of these appeals will have been eliminated and replaced with a broad appeal that allows a unit to petition for an increase in its maximum levy if the unit cannot carry out its governmental functions within the current limit. After 2009, the county review boards will hear the appeals rather than the DLGF.

Under this bill:

(A) The current appeals would be repealed at the end of 2008 rather than 2009, and the replacement appeal would be effective in 2009;
(B) The appeal due to annexation would not be repealed. It would, however, be modified to allow a phase-in of the levy increase over a period of up to five years;
(C) The remaining specific appeals for civil taxing units would be heard by the county council; and
(D) The new broader scope appeal would be heard by the distressed unit appeal board.

(11) Class A Misdemeanor for Assessing Duties: If additional court actions occur and a guilty verdict is entered, local governments would receive revenue from court fees. However, any change in revenue would likely be small.

(18) School Pension Debt: The bill provides an annual distribution to schools to pay principal and interest on school retirement and severance bonds. The estimated annual distribution is $123.6 M. The school maximum levies would be reduced by the amount of the grant.

(20) Assessment Standards - Strip-Mined Property: Under current law, land that has been stripped for coal is assessed as farmland with a productivity factor of 0.50 if it was stripped before December 31, 1977, and with a productivity factor of 0.68 if stripped after that time.

For taxes payable in 2010 and 2011, this bill would require a change to the productivity factor from 0.50 to 0.75 for land that was stripped prior to December 31, 1977. The assessed value of this land would increase by 50%.

Also for taxes payable in 2010 and 2011, the bill would change the assessment on land stripped after December 31, 1977, that has had the bond or bond equivalent released. The bond is released when the land has been reclaimed or put back to its original state. This land would be assessed as other farmland. The assessment on reclaimed land would increase by 47%. Specific information regarding the total fiscal impact of this provision is not available.

(21, 22) State Administration of Child Welfare; CHINS and Delinquents: The bill will reduce informal adjustment program fees that are deposited into the county user fee fund by approximately $7,000 per year.

(27) School Bus Replacement: Under current law, schools are to assume the useful life of a school bus is at least 10 years; the bill would change the requirement to at least 12 years. The bill should reduce the school bus replacement levy. The levy is about $87.2 M, and the reduction would be about 16.7% per year when fully effective.

(29) TIF Provisions- Revenue: The elimination of tax levies coupled with the supplemental homestead deduction and the elimination of PTRC would affect net tax rates. If the net tax rate is reduced in a TIF area, the net TIF proceeds could also be reduced. Currently, the TIF governing body may recover TIF proceeds that were lost due to the 60% PTRC on the school general fund levy through the imposition of a property tax levy.

Under this bill, if TIF proceeds are lost due to (1) the enactment of laws by the General Assembly or (2) actions taken the DLGF after the TIF area is established, the TIF governing body would be permitted to recover the lost revenue by:

1. Imposition of a special assessment on the property owners in the TIF area;
2. Imposition of a property tax levy in the taxing district that includes the TIF district; or
3. Reducing the base assessed value in the TIF area which would (a) increase the AV allocated to the TIF and (b) increase the tax rate.

Any action by the TIF governing body could only be taken after a public hearing. If the TIF governing body chooses to impose a special assessment or tax levy, the proposal must be submitted to the legislative body of the unit that established the TIF district. The legislative body could (1) reduce or increase the amount of the special assessment or tax or (2) determine that no special assessment or levy be imposed.

(31) Lake County LOIT: Under current law, the LOIT for property tax replacement may be targeted to (1) homesteads, (2) residential property (homestead and rental), (3) all real and personal property, or (4) any combination of the first three options.

This bill provides that if Lake County adopts LOIT for property tax replacement, the Lake County Council would determine the distribution method from the following three choices:

1. The tax revenue may be used to proportionately reduce all property tax levies imposed by the county unit of government;
2. (a) The tax revenue collected from taxpayers within a particular municipality may be used to provide a local property tax credit at a uniform rate against property taxes imposed by that municipality; and (b) The tax revenue collected from taxpayers within the unincorporated area may be used to provide a local property tax credit to taxpayers within the unincorporated area at a uniform rate against the county unit levy; or
3. Sixty percent of the tax revenue would be used the same way as the #2 option. The remaining 40% would be distributed to the county and to townships and municipalities on the basis of population and used to reduce those taxing units' property tax levies.

The total LOIT distribution would not be affected by this provision. However, this bill would shift some of the income tax revenue from the benefit of some taxpayers to the benefit of others. Due to a lack of data identifying the geographical source of the LOIT collections, the shift cannot currently be estimated.

(35) Special Education Preschool Property Tax Levy: The bill would eliminate the special education preschool levy, about $6M, for CY 2009. The bill increases the appropriation for the state special education preschool distribution by $3 M for January through June of 2009.

(37) Supplemental Homestead Deduction: Under current law, homesteaders receive a property tax standard deduction equal to the lesser of one-half of the homestead's gross assessed value or $45,000 for taxes payable in 2008, $44,000 for 2009, $43,000 for 2010, $42,000 for 2011, $41,000 for 2012, and $40,000 thereafter. Under this proposal, the schedule for the traditional deduction would remain the same.

However, homesteaders would also receive a supplemental deduction beginning with taxes payable 2009. The supplemental deduction would be determined for each homestead, based on the homestead's net AV after subtracting off the standard deduction. The supplemental deduction would equal 35% of the first 600,000 of net AV plus 25% of any net AV that exceeds $600,000.

The total amount of the new deduction is estimated at $53.6 B for taxes payable in 2009 and $56.5 B for taxes payable in 2010.

(41) Renter's Deduction - Because the increase in the renter's deduction would serve to decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes.

(45) Property Tax Installment Payments: Under this proposal, a county that issues reconciling statements could permit taxpayers to make installment payments of taxes due on the statement. The county could specify the installment period. The county and the taxing units within the county would lose interest earnings on the payments that are received later under the program. The impact depends on local action.

(50) LOIT: Under current law, in addition to traditional CAGIT, COIT, and CEDIT, each county may impose

three additional LOIT rates. These are the LOITs for levy replacement (up to 1%), property tax relief (up to 1%), and public safety (up to 0.25%, or 0.5% in Marion County). In 2007, 14 counties adopted one or more of these LOITs.

Currently, the public safety LOIT rate may not exceed the LOIT rate for property tax relief. Under the bill, a county may adopt the public safety LOIT if the combined LOIT rate for levy replacement and for property tax relief is at least 0.25%.

State Agencies Affected: DLGF; Legislative Services Agency; DOR; State Board of Accounts; State Budget Agency; Treasurer of State; DOE; Family and Social Services Administration; Public Employees' Retirement Fund as administrators of the Pension Relief Fund.

Local Agencies Affected: All.

Information Sources: LSA's Parcel-level assessment and tax data; OFMA Income Tax Databases, 1996-2005; U.S. Internal Revenue Service, Statistics of Income, Tax Stats - Individual Income Tax Return (Form 1040) Statistics, 1996-2000; Consumer Price Index, All Urban Consumers in the Midwest, Rent of Primary Residence; Doug Todd of McCready & Keene, Inc., Actuaries for PERF and the Police and Fire Funds, 317-576-1508; DOR; DLGF- Local Government Database.

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